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**Via E-Mail and U.S. Mail**

November 21, 2016

Robert deV. Frierson  
Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Washington, D.C. 20551

**Re: Proposed Amendments to the Capital Plan and Stress Test Rules (Docket No. R-1548 & RIN 7100 AE 54)**

Dear Mr. Frierson,

On behalf of the American Council of Life Insurers (the “ACLI”),<sup>1</sup> and its 280 member life insurance companies, we are writing in response to the request of the Board of Governors of the Federal Reserve System (the “Board”) for comment on its proposed rule (the “Proposed Rule” or the “Proposal”) to amend the Capital Plan and Stress Test Rules. We are pleased to continue to engage in dialogue with the Board and other stakeholders on the development of appropriate supervisory standards for the insurance industry.<sup>2</sup>

**Potential Application of the Proposed Rule to Insurance Groups**

The ACLI believes that the Board should exercise its authority under Dodd-Frank to tailor applicable standards to the characteristics of the insurance industry and would like to reiterate this view in the context of the Proposed Rule. As we have discussed previously in commenting on other proposed rulemakings by the Board under Dodd-Frank, the business models and risk profiles of banking organizations and insurance groups are fundamentally different. For example, the risk of a “run on the bank” scenario is significantly less meaningful for insurance groups than for banking organizations due to, among other things, the nature of the incentives of insurance policyholders versus bank depositors. Also, the overall risk profile of an insurance group is relatively stable over time as compared to a bank. Insurance liabilities accumulate over years of product sales, limiting changes in the risk profile of in-force liabilities over the short run. Insurance group balance sheets also predominantly reflect “buy and hold” insurance investment activities, resulting in a relatively stable asset-side risk profile.

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<sup>1</sup> American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with 280 member companies operating in the United States and abroad. ACLI advocates in state, federal, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers’ products for the financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 95 percent of industry assets, 92 percent of life insurance premiums, and 97 percent of annuity considerations in the United States. Learn more at [www.acli.com](http://www.acli.com).

<sup>2</sup>See Capital Requirements for Supervised Institutions Significantly Engaged in Insurance Activities, 81 Fed. Reg. 38631 (June 14, 2016).

**American Council of Life Insurers**

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In light of these and other fundamental differences, the Board should proceed thoughtfully and deliberately when applying regulatory and supervisory standards to insurance groups that are subject to supervision by the Board. Ultimately, any such standards must be tailored appropriately to account for the particular characteristics of the insurance industry.

However, we note that in footnote 1 of the Proposal, the Board has indicated that the requirements of the Proposal are to “apply to any nonbank financial company supervised by the Board that becomes subject to the capital planning and stress test requirements pursuant to a rule or order of the Board.” Presumably, this category of companies may in the future include Systemically Important Financial Institutions with substantial insurance activities (“Insurance SIFIs”), and savings and loan holding companies with substantial insurance activities (“Insurance SLHCs”) may also become subject to capital planning and stress testing requirements like those set forth in the Proposed Rule.

We do not believe that it would be appropriate to impose such requirements on the Insurance SIFIs or Insurance SLHCs without a separate notice and comment process. In our view, the Board should develop a separate proposed rulemaking on the topics covered by the Proposed Rule based upon, and considering, the particular capital and stress testing rules that are ultimately adopted for Insurance SIFIs and Insurance SHLCs. Each of these rulemakings must be tailored to fit the business and risks profiles of Insurance SIFIs and Insurance SHLCs. Further, we note that, by statute, stress testing requirements cannot be imposed on Insurance SIFIs until applicable capital standards are developed and implemented. In any event, we believe that Insurance SIFIs and Insurance SHLCs must be afforded an opportunity to review and comment on a specific proposed rulemaking that would apply to them.

#### **Qualitative Assessments under CCAR**

In general, ACLI strongly supports the elimination of intensive CCAR qualitative assessments for bank holding companies with total consolidated assets of \$50 billion or more but less than \$250 billion. As noted in the proposed rulemaking, these institutions are unlikely to present systemic risks, and the resource allocation necessary to satisfy the qualitative assessment far outweighs any benefit. This “tailoring” of supervisory expectations should apply as well to Insurance SIFIs and SLHCs should CCAR be extended to these entities. We suggest, also, that the Board seriously consider criteria other than size alone for identifying firms as noncomplex, because a company should not be disqualified from the lighter regime for noncomplex firms simply because it exceeds one or even more than one of the quantitative criteria for noncomplex status. (In any event, if the Board applies capital planning and stress testing requirements to the Insurance SLHCs, it will need to reconsider the “nonbank assets” criterion for noncomplex status, lest the quantity of the SLHCs’ insurance assets alone result in disqualification).

Further, in the event that a CCAR-like qualitative assessment were to apply to Insurance SIFIs and Insurance SLHCs, we believe that many aspects of the capital planning supervisory review (such as under current Supervision and Regulation Letter SR 15-18) would need to be modified to be suitable for insurers. These modifications are necessitated by the distinct risk profiles of insurance groups as compared to banks (as highlighted above). To note just a few examples of where tailoring of SR 15-18 would be required in order to properly fit the business and risk profiles of insurance groups:

- Applying the supervisory approach described in SR 15-18 to insurers would necessitate replacement of bank-centric categories, such as “pre-provision net revenue,” with insurance analogues.
- Changes would be necessary to reflect that substantial portions of insurers’ liabilities are actuarially determined, as opposed to the “fair value” approaches generally applied to both assets and liabilities of banks under U.S. GAAP.

- The required usage of benchmark or challenge models for the validation of models used in insurance would be cost-prohibitive. Simpler approaches should be equally effective.
- The concept of calculating “real time” capital levels and targets is not appropriate for insurers given that the insurance accounting framework is heavily dependent on the estimation of significant insurance reserves and other accruals.
- The frequency of certain other requirements in SR 15-18 would be overly burdensome and yield little supervisory benefit considering the relatively stable risk profiles of insurers.

The practical challenges of building a tailored capital planning supervisory regime for Insurance SIFIs and Insurance SLHCs will require careful deliberation by the Board, but devoting the necessary time and resources to this effort would yield important benefits both to the affected financial institutions and the consumers and other customers that they serve. Thank you for your consideration of these comments, and please contact us should you have any questions.

Sincerely,



David M. Leifer



Jigar Gandhi